

2015 Interim Results

30 July 2015

The logo for Bodycote, featuring a red square followed by the word "Bodycote" in a bold, black, sans-serif font with a white outline.

Bodycote

Stephen Harris

Group Chief Executive



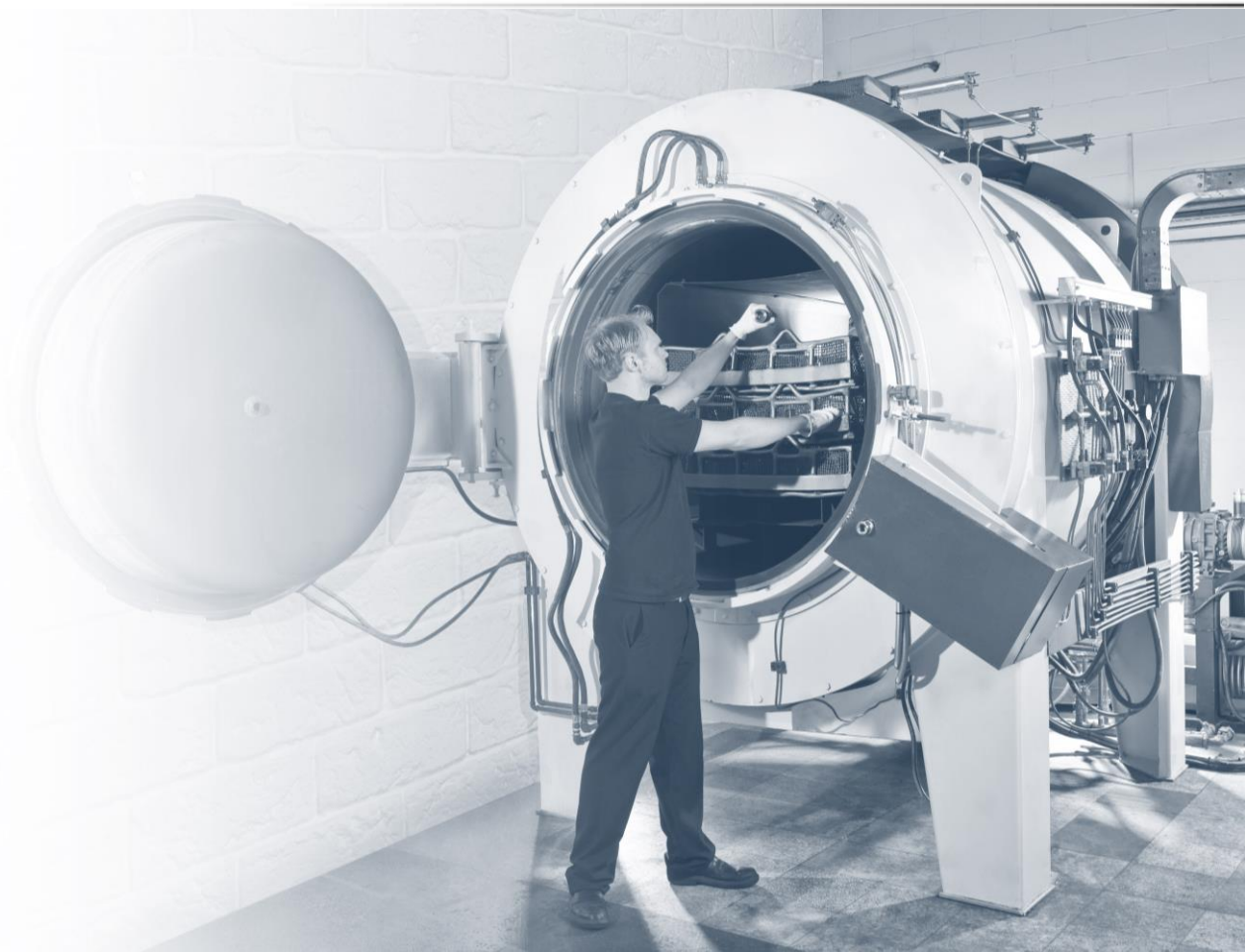
Agenda

Summary

Financial review

Business review

Outlook



- Revenues down 1% at constant currency
 - Sharp drop in Oil & Gas activity disguises progress elsewhere
- Headline operating margin maintained at 18.0%
 - Reduction in ADE fully offset by further progression in AGI
- Exceptional restructuring charge of £20m
 - Further business improvements in AGI, exiting Brazil
- Continued growth in specialist technologies
- Net debt £7m
- Interim dividend of 4.8p, up 4%

David Landless

Group Finance Director

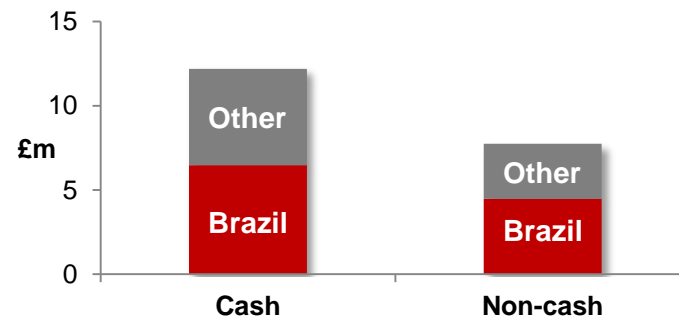


2015 Interim Results summary

£m	H1 2015	H1 2014	Constant exchange rates		Currency	Total change		
Revenue	299.8	312.3	(3.5)	-1%	(9.0)	(12.5)	-4%	
Headline:	Operating profit	54.1	56.1	(0.8)	-1%	(1.2)	(2.0)	-4%
	<i>Margin</i>	18.0%	18.0%					
	Profit before tax	52.6	54.5	(0.7)	-1%	(1.2)	(1.9)	-4%
Exceptional restructuring charge	(19.9)	-						
<i>Headline tax rate</i>	23.7%	22.8%						
Net (debt)/cash	(7.0)	5.5						
Headline EPS	21.1p	22.1p					-5%	
Dividend	4.8p	4.6p					4%	

Exceptional restructuring charge

- £20m non-recurring H1 charge, more than half relates to Brazil



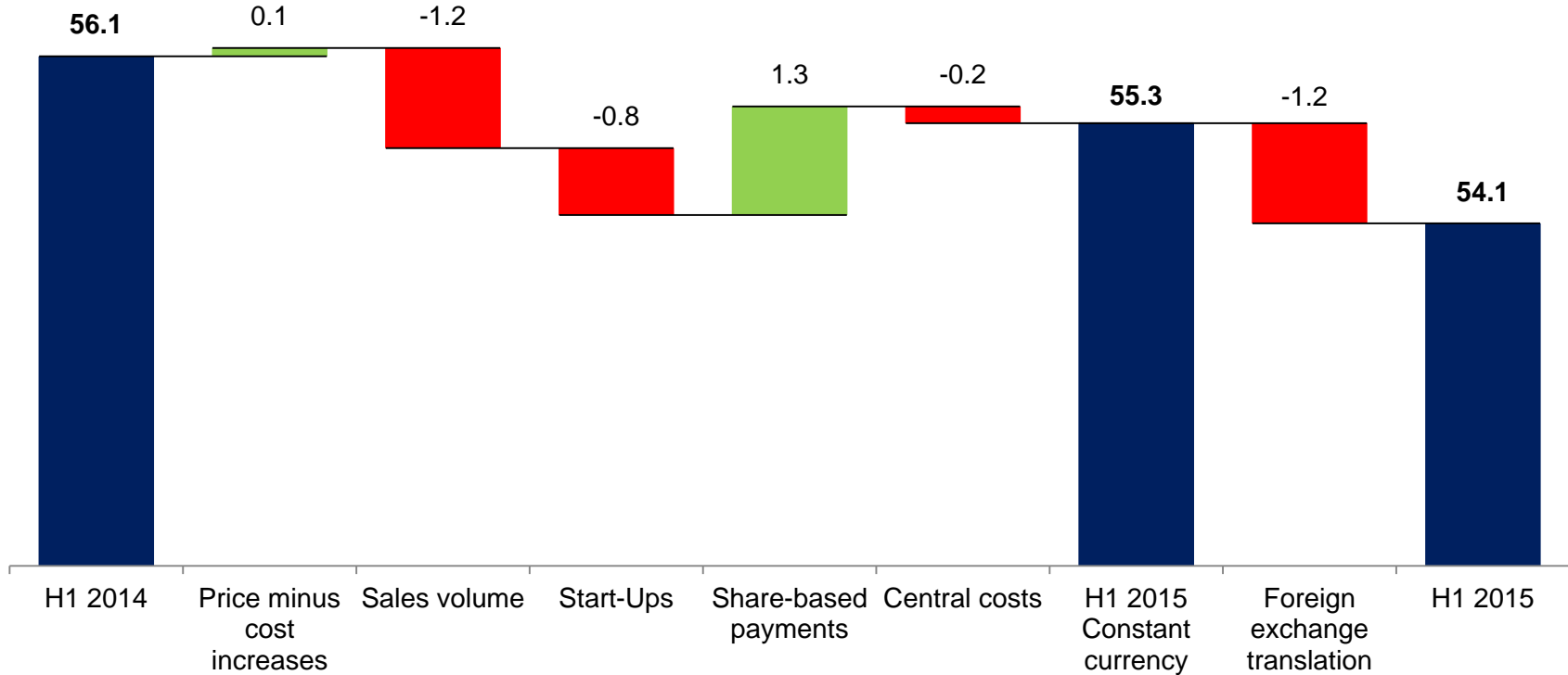
- Cash cost £12m (£10m in H2 2015, £2m in 2016)
- Asset impairments £8m
- H2 benefit £4m
- Additional 2016 benefit £6m
- Total ongoing benefit £10m

Divisional summary

£m	H1 2015	H1 2014	Constant exchange rates		Currency	Total change	
ADE Divisions							
Revenue	128.8	133.5	(5.9)	-4%	1.2	(4.7)	-4%
Headline Operating Profit	31.5	36.0	(5.2)	-14%	0.7	(4.5)	-13%
<i>Margin</i>	24.5%	27.0%					
AGI Divisions							
Revenue	171.0	178.8	2.4	1%	(10.2)	(7.8)	-4%
Headline Operating Profit	27.6	25.3	4.0	16%	(1.7)	2.3	9%
<i>Margin</i>	16.1%	14.1%					

Headline operating profit bridge

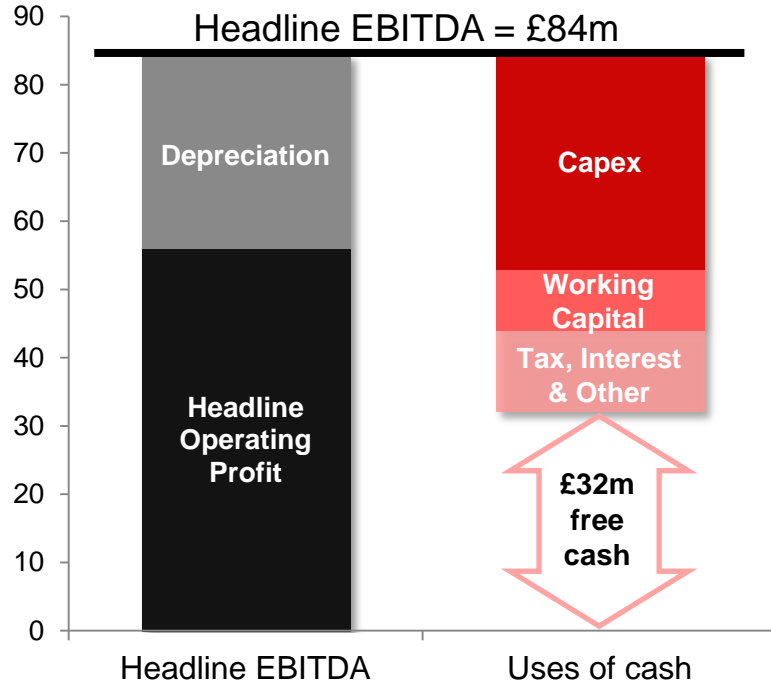
£m



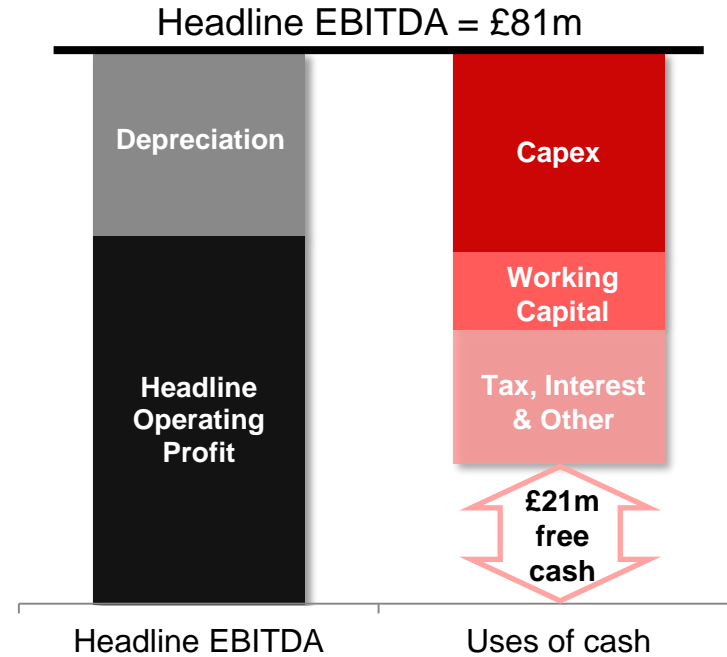
Cash flow

£m

H1 2014



H1 2015



See slide 29 for detailed cash flow disclosure

Currency

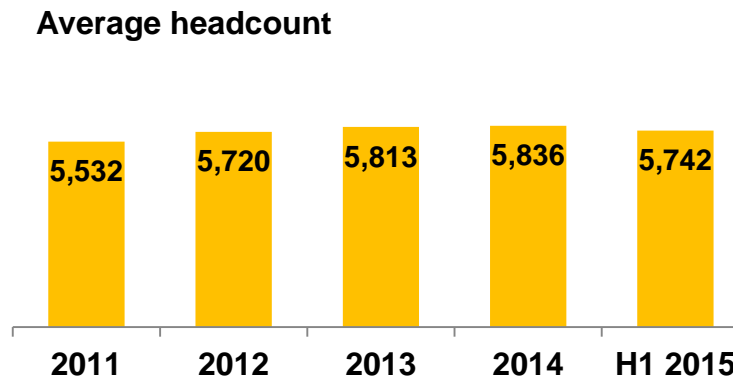
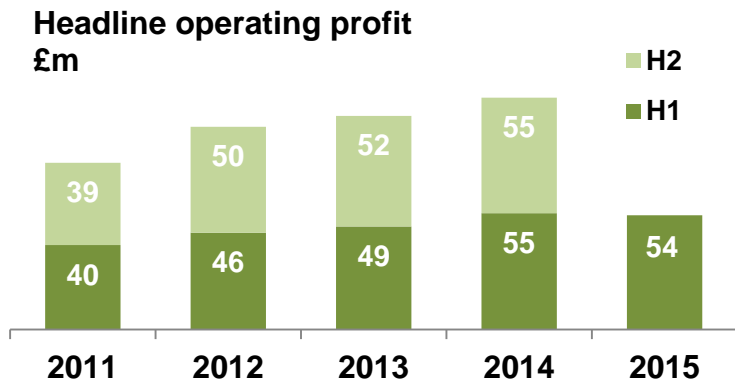
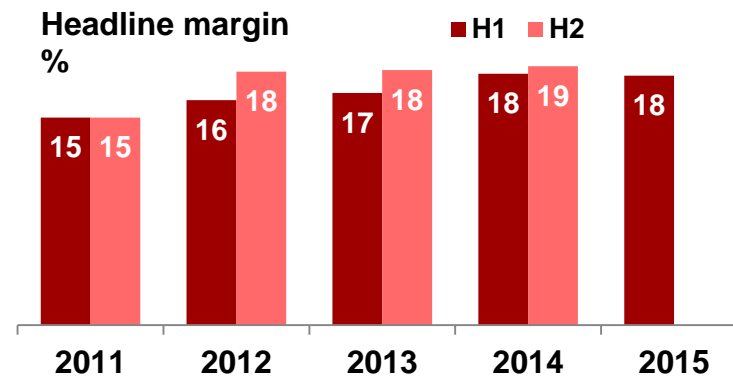
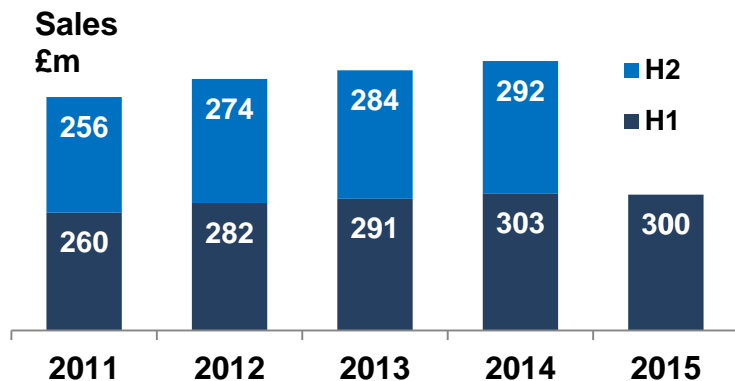
- Profit translation negative £1.2m in H1
- c.£3.5m full year impact if current rates persist

Taxation

- Headline tax rate 23.7% (H1 2014: 22.8%)
- H1 effective tax rate 34.1%, due to restructuring charge for Brazil

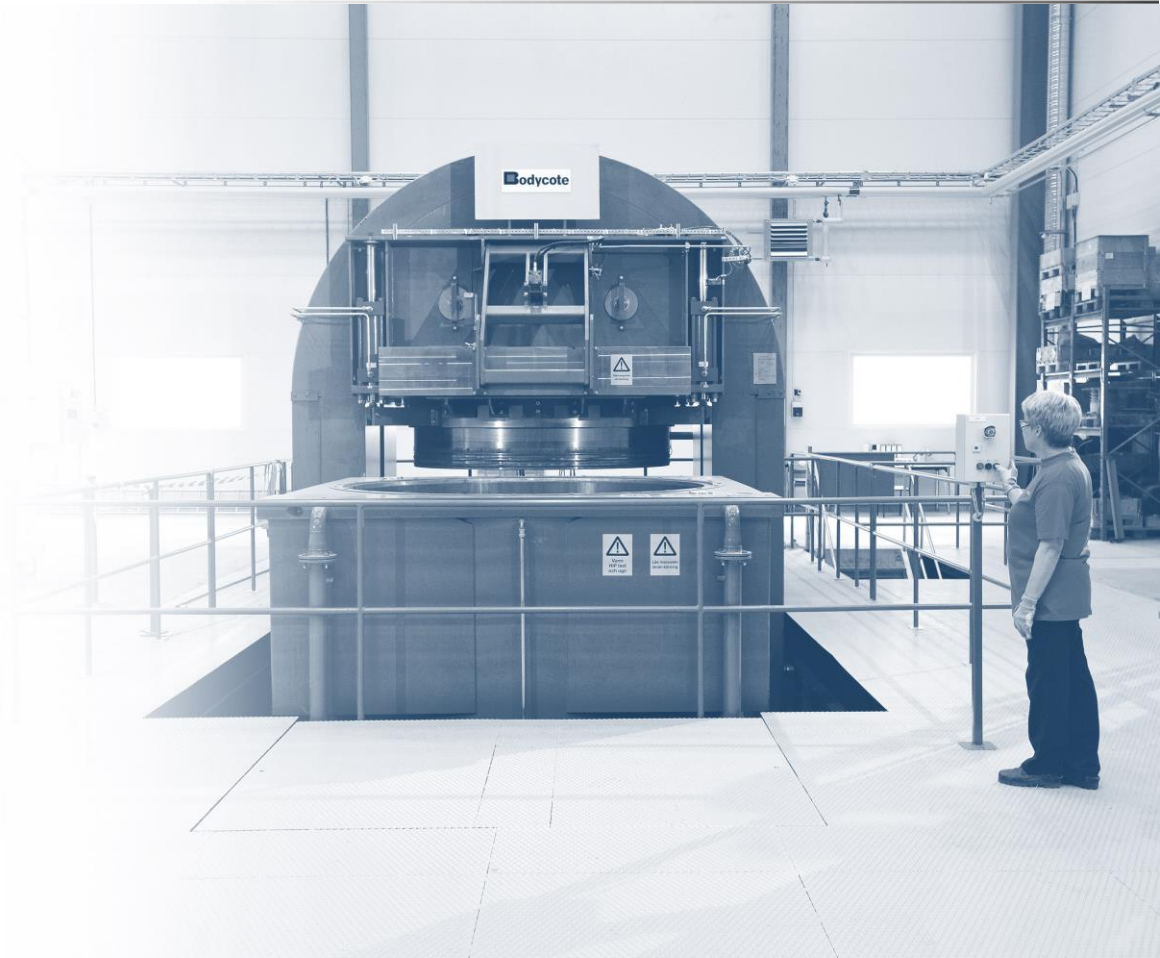
Five year perspective

At H1 2015 exchange rates



Stephen Harris

Group Chief Executive

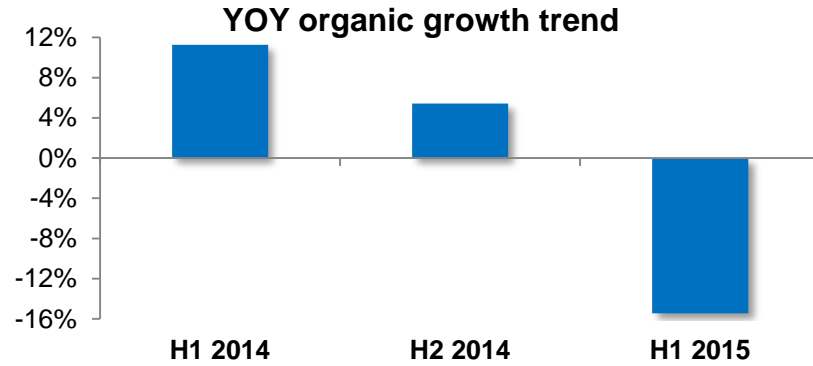


Topics

- Market segments
- Margin progression
- Specialist technologies
- Restructuring

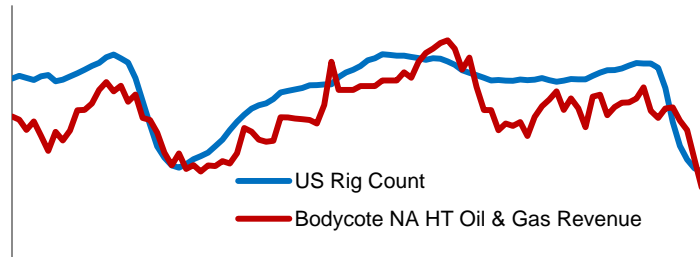
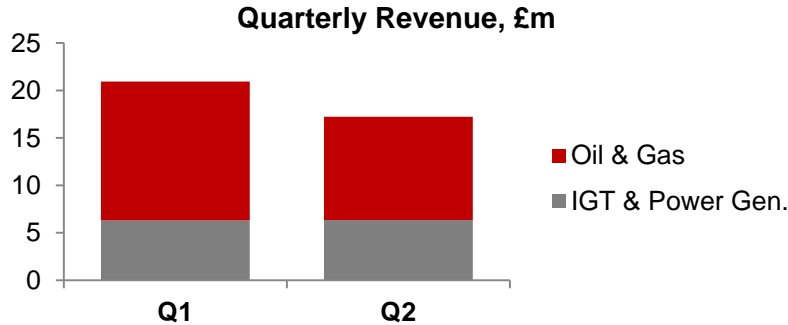
Revenue: £38m

Constant currency decline: -13.6%



Revenue: £38m

Constant currency decline: £6m



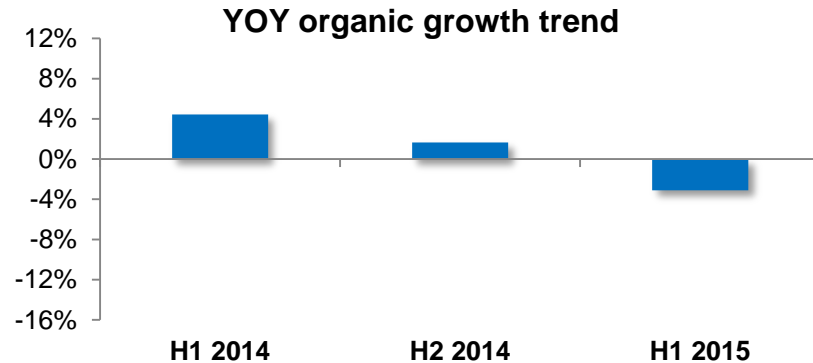
Jul-07 Jul-08 Jul-09 Jul-10 Jul-11 Jul-12 Jul-13 Jul-14 Jun-15

Source: Baker Hughes, Bodycote revenue

- Oil & Gas fell sharply in Q2
 - Dramatic reduction in Heat Treatment and Surface Technology
 - Impact lessened due to robust HIP PF subsea revenues
- IGT and power generation stable

Revenue: £112m

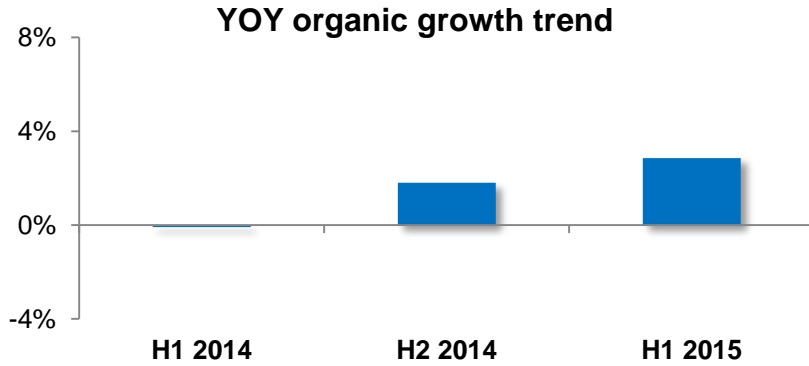
Constant currency decline: -3.0%



- Some softness, largely an Oil & Gas knock-on effect
- Commodity price weakness affected industrial machinery, particularly agricultural equipment

Revenue: £70m

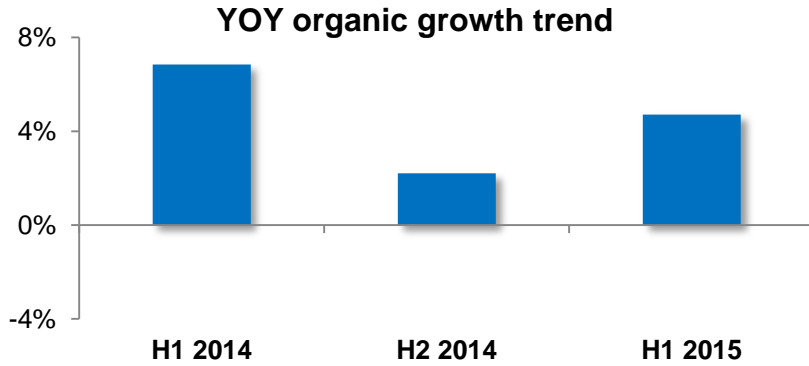
Constant currency growth: 3.0%



- North America and France achieved strong growth on new narrow body programmes
- UK Aero down 4%, driven by lower customer production rates

Revenue: £80m

Constant currency growth: 5.1%

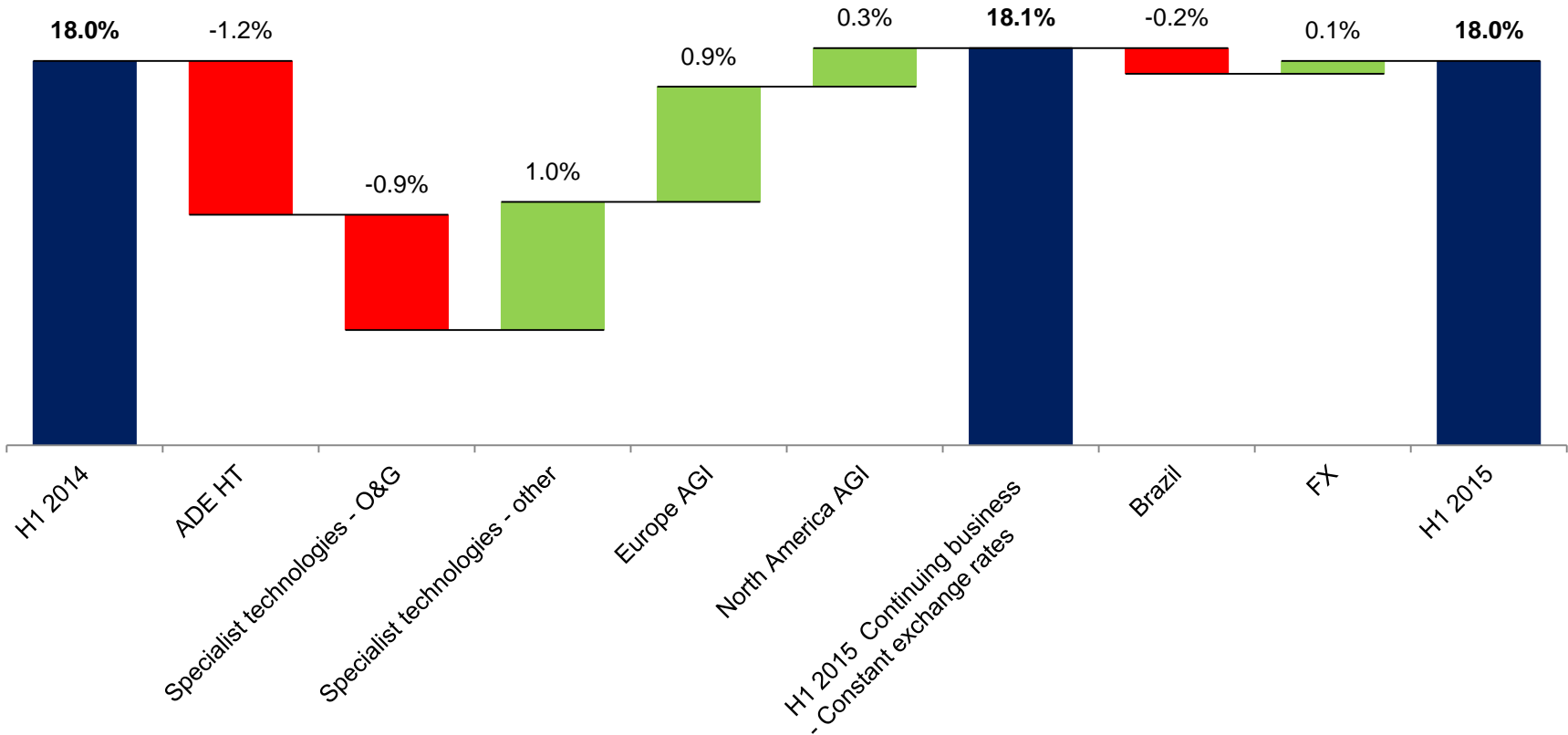


- Car & light truck up 7%
- Solid growth driven by programme wins
- Margin improvement in all territories
- Programme specific issues held back European heavy truck

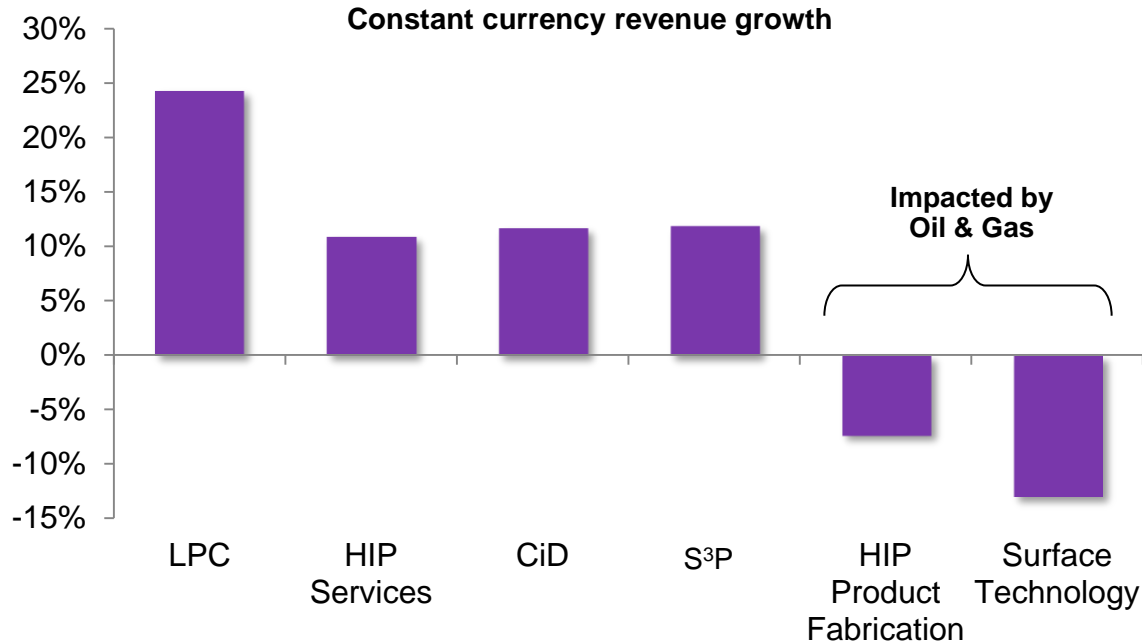


Headline operating margin bridge

%



- Encouraging growth from specialist technologies



Brazil

- Economy continues to deteriorate
- Automotive production contracting rapidly
- Oil & Gas growth potential now distant
- Poor prospects precipitate withdrawal

Annualised benefit	£3m
Cash cost	£6m
Non-cash cost	£5m
Total Cost	£11m

AGI Europe

Annualised benefit: £4m
Cost: £8m

- Exiting low margin activity
- Rightsizing operations

Oil & Gas

Annualised benefit: £3m
Cost: £1m

- Reducing fixed costs

Looking ahead

Near-term:

- H2 similar to H1

2016 and beyond:

- Oil & Gas destocking will end before cyclical recovery
- Continued momentum from Automotive programme wins
- UK Aero recovery unlikely until late 2016, but good growth thereafter
- Global aerospace secular growth will continue
- Further mix improvements in classical heat treatment
- Continued growth from specialist technologies

The Group's performance was resilient in the first half, with business improvements mitigating the sharp cutback in oil & gas activities.

No upturn is anticipated in the second half in oil & gas and general industrial demand is expected to remain soft. However, the second half will benefit from the early results of restructuring and further progress in aerospace and automotive together with continued growth from the Group's specialist technologies.

The Board is confident that management's continued focus on business improvement will generate good returns throughout the cycle.

An aerial photograph of a coastline, showing a dark, textured landmass on the left and a lighter, sandy beach area on the right. The ocean is visible in the upper right corner. The word "Bodycote" is overlaid in the center, with a red square icon to its left.

Bodycote

Definitions

Term	Definition
Headline Operating Profit	Operating profit before exceptional costs and amortisation of acquired intangibles
Headline Profit Before Tax	Profit before tax, exceptional costs and amortisation of acquired intangibles
Headline Operating Cash Flow	Cash generated by operations, less net capital expenditure and before cash flow relating to exceptional items
Headline EBITDA	Earnings before interest, tax, depreciation, amortisation, impairment of fixed assets, profit or loss on disposal of property, plant and equipment, cash flow relating to restructuring, acquisition costs and share-based payments
Headline EPS	Earnings per share excluding exceptional costs and tax on exceptional costs

H1 2015 Statutory income statement

£m	H1 2015	H1 2014
Revenue	299.8	312.3
Headline operating profit	54.1	56.1
Amortisation of acquired intangible fixed assets	(2.1)	(1.9)
Reorganisation costs	(19.9)	-
Operating profit	32.1	54.2
Net finance costs	(1.5)	(1.6)
Profit before tax	30.6	52.6
Headline earnings per share (pence)	H1 2015	H1 2014
Basic	21.1p	22.1p

H1 2015 Cash flow

£m	H1 2015	H1 2014
Headline operating profit	54.1	56.1
Add back: Depreciation and amortisation	26.0	26.4
Share-based payments	0.8	1.9
Headline EBITDA	80.9	84.4
Net capital expenditure	(29.2)	(31.5)
Net working capital movement	(11.5)	(8.9)
Headline operating cash flow	40.2	44.0
Restructuring	(3.5)	(1.2)
Operating cash flow	36.7	42.8
Financing costs	(1.2)	(1.3)
Tax	(14.9)	(9.4)
Free cash flow	20.6	32.1
Dividends	(56.9)	(36.5)
Other	(6.4)	(5.1)
Increase in net debt	(42.7)	(9.5)

Net capex to depreciation ratio 1.1 times

Includes payment of 2014 Special Dividend (£38m)

Specialist technologies

What are they?

 HIP HIP Services	<ul style="list-style-type: none">▪ Application of high temperature and pressure to densify cast material▪ Removal of porosity defects improves strength, toughness and machinability▪ Can eliminate internal voids created by additive manufacturing methods
 HIP PF HIP Product Fabrication	<ul style="list-style-type: none">▪ Method of manufacturing components by HIP technology using powder or solid▪ Can create parts with the complexity of a casting but the strength of a forging▪ Can be used to produce materials that can't be manufactured by any other means
 S³P Specialty Stainless Steel Processes	<ul style="list-style-type: none">▪ A family of proprietary technologies for the treatment of stainless steel▪ Unique solution for improving the strength, hardness and wear resistance of stainless steels▪ Does not affect the inherent corrosion-resistant properties of stainless steel
 ST Surface Technology	<ul style="list-style-type: none">▪ Comprises thermally sprayed ceramic and metallic coatings, and chemically-formed ceramics▪ Prolongs component life by protecting from corrosion, abrasion and temperature▪ Leads to reduced environmental impact by eliminating chrome
 LPC Low Pressure Carburising	<ul style="list-style-type: none">▪ A 'clean' heat treatment process carried out under vacuum▪ Provides a hardened surface and tough core – improves wear resistance and fatigue life▪ Environmentally friendly
 CiD Corr-I-Dur®	<ul style="list-style-type: none">▪ Proprietary heat treatment process for improving corrosion resistance and wear properties▪ Successful alternative to hard chromium▪ Leads to reduced environmental impact by eliminating chrome

Net finance charge/facilities

£m	H1 2015	H1 2014
Net interest payable	0.1	0.1
Financing and other costs	1.2	1.2
Pension finance charge	0.2	0.3
Net finance charge	1.5	1.6

- Average remaining life of £230m committed facility is 4 years
- Committed facility headroom of £218m at 30 June 2015
- Closing net debt of £7m

Pension analysis

£m	H1 2015	H1 2014	FY 2014
UK Funded	0.8	4.6	1.0
Other Western Europe Funded	1.7	1.2	1.6
Other Western Europe Unfunded	12.6	11.9	13.7
Western Europe Total	15.1	17.7	16.3
North America Funded	0.6	0.2	0.6
Emerging Markets Unfunded	0.1	0.1	0.1
Total retirement benefit obligations	15.8	18.0	17.0

£m	H1 2015	H1 2014	FY 2014
Western Europe Unfunded:			
Italy	0.6	0.6	0.7
France	8.2	8.1	8.9
Germany	3.8	3.2	4.1
	12.6	11.9	13.7

Shares in issue		H1 2015	H1 2014
Weighted average		190.0m	190.2m

Exchange rates		H1 2015	H1 2014
EUR	Average (P&L)	1.37	1.22
	Closing (B/S)	1.41	1.25
USD	Average (P&L)	1.53	1.67
	Closing (B/S)	1.57	1.71
SEK	Average (P&L)	12.77	10.92
	Closing (B/S)	13.04	11.43

Analysis by currency, H1 2015:

	Sales	Operating Profit
EUR	34%	38%
USD	37%	48%
SEK	8%	7%